Dialog Group

Biorefinery Storage Secured

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DIALOG has announced that its 25%-owned joint venture, Pengerang Terminals (Two) Sdn Bhd (PT2SB), has secured a 25-year take-or-pay terminal usage agreement with Pengerang Biorefinery Sdn Bhd (PBSB) to store sustainable products. While the win is a positive development, the DCF accretion is modest at RM0.02/share, as the project's internal rate of return (IRR) is estimated at 9.5%, lower than that of its previous projects. Nevertheless, we view this as a strategic step for DIALOG to establish its presence in the sustainable product storage segment in Pengerang, Johor, a market with substantial long-term potential. We maintain our forecasts, upgrade TP to RM1.96 and OUTPERFORM call.

DIALOG announced that its 25%-owned JV, Pengerang Terminals (Two) Sdn Bhd (PT2SB), has signed a terminal usage agreement with Pengerang Biorefinery Sdn Bhd (PBSB) to provide storage and handling facilities for PBSB's feedstocks and products. The project will involve USD330m in capex for a storage capacity of 272,000 m^3, with the usage agreement structured on a 25-year take-or-pay basis.

The win is a positive surprise as no additional capacity expansion beyond those previously announced had been factored in. However, the internal rate of return (IRR) is expected to be lower at 9.5%, versus 11–13% for earlier projects, which could be partly due to the higher capex-to-capacity ratio of ringgit equivalent RM5,217/m^3 (vs. RM4,846/m^3 for Pengerang Terminals 2 with 1.3m m^3 capacity). Based on a WACC of 6.3%, we estimate a DCF valuation accretion of RM0.02/share while annual earnings contribution is expected to be RM16m, or approximately 4% of FY25F forecast. Notably, the project is ESG-aligned, serving as a storage hub for sustainable aviation fuel (SAF), hydrogenated vegetable oil (HVO), and bionaphtha.

Outlook. Dialog's earnings are stable, driven by improved occupancy rates and spot rates at its independent tank terminals due to the sustained increase in demand regionally for storage. Additionally, the completion of legacy EPCC contracts that suffered from cost elevation should pave the way for at least breakeven in the coming quarters. For now, we believe that the market's expectations are sufficiently conservative and upside potential remains in its medium-term earnings outlook. That aside, the incoming upturn in plant maintenance and turnaround activities in downstream Malaysia in FY26 and onwards could be a boon to its plant maintenance core.

Forecasts. Maintained.

Valuations. We tweak up our SoP-based TP slightly to RM1.96 (from RM1.94). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

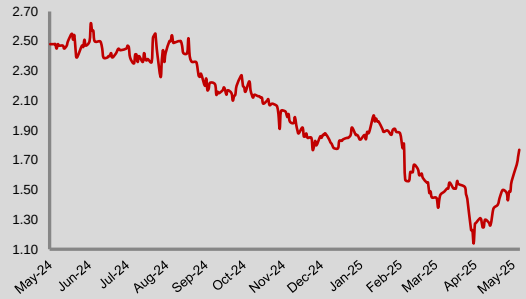
Investment case. We continue to like DIALOG for: (i) margin recovery at its plant maintenance, EPCC and specialist product businesses, (ii) its earnings growth of upstream investments, including production assets (its current portfolio of production-sharing contracts includes Baram Junior Cluster, D35/D21/J4 and Concession L53/48 in Thailand), and (iii) its strong track record in project execution. Maintain OUTPERFORM.

Risks to our call include: (i) reversal of the easing cost pressures trend, (ii) delay in capacity expansion plans, and (iii) reduced utilisation of tank terminals.

OUTPERFORM ↔

Price:	**RM1.69**
Target Price:	**RM1.96 ↑**

Share Price Performance



KLCI	1,524.5
YTD KLCI chg	-7.2%
YTD stock price chg	1,524.5

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DLG MK Equity
Market Cap (RM m)	10382.6
Shares Outstanding	5,642.6
52-week range (H)	2.54
52-week range (L)	1.72
3-mth avg. daily vol.	24,737,990
Free Float	30%
Beta	1.4

Major Shareholders

Ngau Boon Keat	19.1%
Employees Provident Fund	15.0%
Kumpulan Wang Persaraan	10.0%

Summary Earnings Table

FYE June (RM m)	2024A	2025F	2026F
Revenue	3151.9	3248.7	3428.3
Operating profit	302.5	84.7	151.7
Profit Before Tax	679.1	421.5	502.7
Net Profit	**575.0**	**438.0**	**492.5**
Core Net Profit	**606.0**	**438.0**	**492.5**
Consensus (NP)		433.0	541.0
Earning Revision (%)		-	-
Core EPS (sen)	10.7	7.8	8.7
CNP Growth (%)	20.4	-27.7	12.4
DPS (sen)	4.5	3.9	4.4
BV/share (RM)	1.1	1.1	1.1
PER (x)	15.8	21.9	19.5
PBV (x)	1.6	1.6	1.5
Net Gearing (%)	0.0	0.0	0.0
Div. Yield (%)	2.7	2.3	2.6

Sum-of-Parts (SoP) Valuation

	RM m	Valuation assumption
Downstream business (EPCC and O&M)	1,121.1	Based on 9x PER
Kertih Centralised Tankage Facilities (30%)	448.8	FCFF @ 7.9% discount rate
Tanjung Langsat Terminals Facility 1 (100%)	1,331.9	FCFF @ 7.9% discount rate
Pengerang Phase 1 (45.9%)	1,618.1	FCFF @ 7.9% discount rate
Pengerang Phase 1 expansion (45.9%)	840.4	FCFF @ 7.9% discount rate
Pengerang Phase 2 (25%)	2,659.6	FCFF @ 7.9% discount rate
Pengerang Phase 3 (25%)	548.0	FCFF @ 7.9% discount rate
Pengerang LNG	479.6	FCFF @ 7.9% discount rate
Bayan PSC	1,397.4	FCFF @ 7.9% discount rate
D35/D21/J4 PSC	558.9	FCFF @ 7.9% discount rate
Pengerang Terminals 2 (biorefinery)	109.8	FCFF @ 6.3% discount rate
Expected net cash/(debt)	-51.1	
Total SoP	**11,062.7**	
No of shares (m)	5,638.0	
SoP per share (RM)	**1.96**	

Source: Kenanga Research

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Income Statement

FY Jun (RM m)	2022A	2023A	2024A	2025F	2026F
Revenue	2319.0	3001.5	3151.9	3248.7	3428.3
EIT	278.1	190.8	302.5	84.7	151.7
Interest	-40.1	-71.6	-63.7	-48.4	-49.8
Associate	251.6	364.0	309.9	352.4	367.9
PBT	550.3	553.9	679.1	421.5	502.7
Taxation	-44.4	-33.3	-73.8	-13.8	-26.9
MI	2.1	-10.1	-30.3	30.4	16.8
Net Profit	508.0	510.5	575.0	438.0	492.5
Core profit	**504.3**	**503.5**	**606.0**	**438.0**	**492.5**

Balance Sheet

FY Jun (RM m)	2022A	2023A	2024A	2025F	2026F
Fixed Assets	2710.6	2750.1	2794.1	2994.7	3177.0
Intangible	807.1	922.4	993.0	993.0	993.0
Other LT assets	2533.5	2897.9	2847.4	2905.5	2938.6
Inventories	73.5	70.9	94.7	96.5	101.9
Receivables	859.9	904.6	789.2	1041.8	1099.4
Other CA	22.3	45.1	39.1	39.1	39.1
Cash	1840.3	1720.6	1572.8	1561.1	1651.5
Total Assets	8847.1	9311.6	9130.3	9631.6	10000.4
Payables	740.7	907.0	822.0	1122.5	1184.5
ST Borrowings	337.2	298.8	127.7	127.7	127.7
Other ST Liability	70.5	60.3	74.3	74.3	74.3
LT Borrowings	2026.9	1863.7	1574.8	1624.8	1674.8
Other LT Liability	19.3	21.5	23.8	23.8	23.8
Minorities Int.	99.1	85.2	64.5	34.1	17.3
Perpetual	498.9	498.9	498.9	498.9	498.9
Net Assets	**5054.4**	**5576.1**	**5944.2**	**6125.4**	**6398.9**
Share Capital	1698.3	1698.3	1698.4	1698.4	1698.4
Reserves	3356.1	3877.8	4245.8	4427.0	4700.5
Equity	**5054.4**	**5576.1**	**5944.2**	**6125.4**	**6398.9**

Cashflow Statement

FY Jun (RM m)	2022A	2023A	2024A	2025F	2026F
Operating CF	520.3	750.2	1187.0	416.4	441.6
Investing CF	-293.4	-295.5	-551.1	-172.9	-132.4
Financing CF	153.9	-598.0	-788.6	-255.1	-218.8

Financial Data & Ratios

FY Jun (RM m)	2022A	2023A	2024A	2025F	2026F
Growth (%)					
Revenue	44.0	29.4	5.0	3.1	5.5
EBIT	-10.3	-31.4	58.6	-72.0	79.2
PBT	-7.5	0.7	22.6	-37.9	19.3
Net Profit	-3.9	-0.2	20.4	-27.7	12.4
Profitability (%)					
EBIT	12.0	6.4	9.6	2.6	4.4
PBT Margin	23.7	18.5	21.5	13.0	14.7
Net Margin	21.7	16.8	19.2	13.5	14.4
Effective Tax Rate	8.1	6.0	10.9	3.3	5.4
ROA	2.20	5.7	5.4	6.6	4.5
ROE	10.0	9.0	10.2	7.2	7.7
DuPont Analysis					
Net Margin (%)	21.7	16.8	19.2	13.5	14.4
Assets Turnover (x)	0.3	0.3	0.3	0.3	0.3
Leverage Factor (x)	1.8	1.7	1.5	1.6	1.6
ROE (%)	10.0	9.0	10.2	7.2	7.7
Leverage					
Debt/Asset	0.3	0.2	0.2	0.2	0.2
Debt/Equity	0.4	0.4	0.3	0.3	0.3
N. Debt/(Cash	523.8	441.9	129.8	191.4	151.1
Net Debt/Equity (x)	0.1	0.1	0.0	0.0	0.0
Valuations					
EPS (sen)	8.9	8.9	10.7	7.8	8.7
DPS (sen)	3.4	3.8	4.5	3.9	4.4
BVPS (RM)	0.9	1.0	1.1	1.1	1.1
PER (x)	19.0	19.1	15.8	21.9	19.5
Div. Yield	2.0	2.2	2.7	2.3	2.6
P/BV (x)	1.9	1.7	1.6	1.6	1.5

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	MP	0.460	0.520	13.0%	2,726.8	Y	12/2025	6.1	6.5	-45.7%	6.4%	7.6	7.1	0.6	7.6%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	UP	1.81	1.56	-13.8%	2,095.6	Y	12/2025	16.5	17.3	-30.0%	5.1%	11.0	10.4	1.0	9.8%	4.0	2.2%
DIALOG GROUP BHD	OP	1.52	1.96	28.9%	8,576.9	Y	06/2025	8.6	8.7	-19.9%	1.5%	17.7	17.4	1.4	8.0%	4.0	2.6%
KEYFIELD INTERNATIONAL	OP	1.74	2.31	32.8%	1,403.3	Y	12/2025	23.6	25.7	-14.0%	9.2%	7.4	6.8	1.7	25.4%	9.0	5.2%
MISC BHD	OP	7.65	8.17	6.8%	34,147.7	Y	12/2025	54.1	46.7	11.1%	-13.8%	14.1	16.4	0.9	6.4%	36.0	4.7%
PETRONAS CHEMICALS GROUP	MP	4.11	3.40	-17.3%	24,800.0	Y	12/2025	16.0	23.4	9.1%	46.1%	19.4	13.2	0.6	3.3%	8.0	2.6%
PETRONAS DAGANGAN BHD	MP	21.90	21.20	-3.2%	21,756.6	Y	12/2025	110.4	113.0	-0.8%	2.3%	19.8	19.4	3.5	18.0%	88.0	4.0%
VELESTO ENERGY BHD	UP	0.185	0.160	-13.5%	1,519.9	Y	12/2025	1.7	1.8	-32.4%	5.3%	10.8	10.3	0.6	5.3%	1.0	5.4%
WASCO BHD	MP	0.955	0.970	1.6%	739.5	Y	12/2025	1.6	1.8	-36.8%	8.3%	57.9	53.5	6.0	10.9%	2.0	2.1%
YINSON HOLDINGS BHD	OP	2.35	3.16	34.5%	6,547.6	N	01/2026	16.6	22.2	20.3%	33.4%	14.1	10.6	1.4	10.0%	5.0	2.1%
SECTOR AGGREGATE					**105,265.6**					**-4.2%**	**8.1%**	**15.1**	**13.9**	**1.6**	**9.9%**		**2.6%**

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Community Investment	★	★	★	★	
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★			
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★			
SPECIFIC	Transition to Low-Carbon Future	★	★			
	Conservation & Biodiversity	★	★	★		
	Effluent/Waste Management	★	★	★		
	Water Management	★	★	★		
	Supply Chain Management	★	★	★		
	Energy efficiency	★	★	★		
	OVERALL	★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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